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LAW DEPARTMENT

ARIZONA CORPORATION COMMISSION  
DOCKET CONTROL

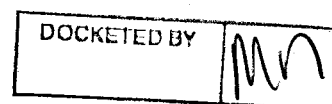
Thomas L. Mumaw  
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December 11, 2008

Kristin K. Mayes  
Commissioner  
ARIZONA CORPORATION COMMISSION  
1200 West Washington  
Phoenix, Arizona 85007

Arizona Corporation Commission  
**DOCKETED**

DEC 11 2008



Re: Your Letter Dated December 3, 2008 Concerning "Increase in the Number of Residential Deposits Being Imposed by Arizona Electric Utilities on Late-Paying Customers"; Docket No. E-01345A-08-0172

Dear Commissioner Mayes:

As you are no doubt aware, the purpose for requiring customer deposits under the circumstances outlined in Arizona Public Service Company ("APS" or "Company") Service Schedule 1 and A.A.C. R14-2-203(B) is to reduce the uncollectible expense that must be recovered from the Company's customers.<sup>1</sup> Nevertheless, APS uncollectible costs for 2008 are on pace to be the highest since APS began keeping consistent records of this expense in 1986. Indeed, they have increased by over 14% just since the filing of the Company's general rate case. Roughly 98% of these write-offs are attributable to residential accounts. Despite this growing problem, only 18.7% of APS residential customers have any security deposit with APS. (For residential customers having established service of 24 months or more, this figure drops to approximately 7%.) This compares to approximately 30% of general service customers. Deposit requirements for both residential and general service customers are up only modestly since the same time last year.

Your letter cites a "40 percent increase in shut-offs" of APS customers for non-payment. I believe you are referring to the 36% increase in deferred payment agreements. Such agreements are authorized by A.A.C. R14-2-210(H) and are intended to prevent shut-offs for delinquent accounts. As I indicated in my letter to you dated July 24, 2008, shut-offs for non-payment for the first six months of

<sup>1</sup> Security deposits are, of course, refundable to residential customers with interest after 12 months of on-time payments. Moreover, they are deducted from the Company's rate base so that APS earns no return on such deposits.

2008 were roughly 10% higher than for the comparable period of 2007. I am also happy to report that this increase over 2007 has now fallen to 6% through the first three quarters of 2008.

Your letter also states that APS has made over 2500 additional requests for security deposits during the third quarter of this year as compared to 2007. Actually, security deposit requests were up by 559, or approximately 5%, during that quarter, but as noted earlier, roughly comparable in the aggregate to 2007. And, I must again note that the vast majority of APS customers are not required to post security deposits.

As to the provisions of Schedule 1 discussed in your letter, I agree that the use of the word "may" in several locations provides, and was intended to provide, APS with some discretion with regard to security deposits. However, APS employees are trained to deviate from the uniform application of deposit requirements only in the most unusual of circumstances. This is because APS has a legal duty to treat all customers in a consistent fashion. As it is, the amount of the deposit permitted (two times the average bill) is frequently inadequate to cover the delinquent bill (which because of the disconnection process is usually for at least two months) and can be less than even a single month's summer bill.<sup>2</sup>

This being said, APS has implemented a number of policies to help residential customers avoid the need to post a security deposit in order to re-establish their credit with the Company. APS sends a letter to the customer after the second delinquency within a 12-month period warning them of the consequences of that third late payment.<sup>3</sup> It also leaves door hanger notices. Under certain circumstances, customers can avoid providing a security deposit by enrolling in the Company's SurePay program. The Equalizer program, by reducing the higher summer bills, also reduces the likelihood of late payments in the first place, thus avoiding the potential for a security deposit request by APS. In fact, all the programs discussed in my July 24<sup>th</sup> letter in the context of preventing turn-offs also have a positive impact on the frequency of late payments. Additionally, APS is currently exploring the practicality of implementing a "pay as you go" option for its customers, similar to the program offered by SRP. Obviously, such a pre-payment option would obviate the need for security deposits.

Low income customers often have difficulty paying bills on time. APS is in discussions with low-income advocacy groups about ways to expand eligibility for the E-3 rate schedule, which as you know, provides a discounted rate for low-income customers of APS. This change will, of course, require Commission approval.

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<sup>2</sup> Interestingly, the Commission's rules permit security deposits from non-residential customers equal to 2.5 times their **maximum** monthly bill. The reason for this discrepancy in treatment is unclear.

<sup>3</sup> Your letter suggests some difference in APS's policy as contrasted with that of Tucson Electric Power Company. So far as we know, they are, in fact, very similar if not identical.

Commissioner Kristin K. Mayes  
December 11, 2008  
Page 3

Finally, APS is a major donor to low-income assistance programs such as Results That Matter. This funding is entirely from shareholder dollars. Further, APS matches donations by its employees and customers to similar programs, also from shareholder dollars.

Sincerely,

A handwritten signature in cursive script that reads "Thomas L. Mumaw".

Thomas L. Mumaw

TLM/

cc: Chairman Mike Gleason  
Commissioner William Mundell  
Commissioner Jeff Hatch-Miller  
Commissioner Gary Pierce  
Ernest Johnson  
Janice Alward  
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